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UNCLAS SECTION 01 OF 03 CARACAS 000512

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A
TAGS: ECON EPET EINV VE
SUBJECT: PDVSA AND MPPEP ANNOUNCE 2006 RESULTS: BEWARE THE FUZZY MATH

REF: A. 05 CARACAS 02596

¶B. 06 CARACAS 2489

SUMMARY

¶1. (SBU) Minister for People's Power of Energy and Petroleum (MPPEP) and PDVSA President Rafael Ramirez presented a consolidated financial report on their 2006 results on March ¶4. The end of year report details PDSVA's activities this past year, including much of its social participation. According to these numbers, PDSVA made a net profit of USD 5.97 billion on worldwide revenues of almost USD 102 billion in 2006. It spent USD 11.8 billion on social expenditures and transfers to the National Development Fund (FONDEN) and remitted over USD 27 billion to the BRV. The figures (if they are to be believed) reveal a state oil firm increasingly geared to providing social services and working as an extension of the Venezuelan government, to the detriment of its oil production and refining responsibilities.

IT'S RAINING MONEY

¶2. (SBU) According to the abbreviated financial statements, PDVSA had worldwide revenues of USD 101.990 billion in 2006, of which USD 55.401 billion was earned in Venezuela. This resulted in net earnings of USD 5.970 billion worldwide, of which USD 3.287 billion was earned in Venezuela. PDVSA claims to have spent USD 20.755 billion on operations, including investing USD 5.832 billion. PDVSA transferred USD 6.855 billion to FONDEN and USD 229 million to FONDESPA in 2006, which along with its in-house spending of USD 4.754 billion resulted in total social expenditures of USD 11.838 billion. PDVSA paid USD 27.213 billion in taxes, royalties, and dividends, which represented about 51 percent of total government revenues. (NOTE: The entire PDVSA financial statement is available on Post's SIPRNET site. END NOTE.)

¶3. (SBU) PDVSA's revenues increased 18.9 percent in dollar terms from 2005 to 2006, during which time the price for the average Venezuelan oil basket rose from USD 46.03/barrel to

USD 56.44/barrel. Despite the increase in revenues, PDSVA profits fell by 7.9 percent from 2005 and profit margins fell from 8 percent in 2005 to 5.8 percent in 2006.

THOSE FUNNY NUMBERS

¶4. (SBU) The table below shows the claims made by PDVSA in its report. There are many gaps and the numbers provided do not match with private sector and Embassy sources. Embassy estimates that total Venezuelan production is in the vicinity of 2.4-2.6mbd. Private sector production in the Faja region prior to OPEC cuts was 422,000bd of syncrude. Local consumption is approximately 500,000bd. This would put PDVSA production in the 1.4-1.6mbd range, well below the 2.3mbd claimed in the report. PDVSA appears to be taking credit for all of the production in the former Operating Service Agreement (OSA) fields, which we estimate to be around 350,000bd (PDVSA owns on average 60 percent of the joint ventures that run the OSA fields). PDVSA appears to be accurately reporting the production in the Faja. (COMMENT: PDVSA has been exaggerating its production levels since the 2002-03 strike, and this report continues the trend. It does demonstrate the declining production in the former OSA fields, which produced around 474,000bd in December 2005. END COMMENT.)

	PDVSA	FORMER OSAs	FAJA	LNG	TOTAL
PDVSA PRODUCTION	2316*	343	---	---	2659
PDVSA EXPORTS	2267	---	170	---	2437

VENEZUELA PRODUCTION	2316*	343	562	173	3394
VENEZUELA EXPORTS	2632	---	310	---	2984

*Includes 29,000bd from PDSVA Gas.
SOURCE: MPPEP and PDSVA "Memoria y Cuenta 2006" Financial Statement

NOTE: Post has sincere reservations about the accuracy of PDVSA's numbers listed above. End Note.

¶5. (SBU) The report also highlights PDVSA's diversification of export sources, noting a strategy to "diversify markets to mitigate the effects associated with the excessive dependence on traditional markets" (read: the United States). 56 percent of Venezuela's oil exports went to the United States in 2003 and, according to this report, by the end of 2006 only 45 percent of their exports went to the United States. (Note: According to DOE, Venezuela exported 1.27mbd to the United States in December 2006, down from 1.53mbd in December ¶2005. End Note.)

A LITTLE HELP FOR MY FRIENDS

¶6. (SBU) PDVSA spent USD 1.347 billion in 2006 to setup, staff and run Barrio Adentro II. Barrio Adentro is one of the BRV's most popular missions (reftel B) and is staffed and run by Cuban doctors and technicians. Stage II provides more clinical and diagnostic care than the basic Barrio Adentro clinics. It appears that these costs and payments were in addition to the 89,000 barrels of oil a day sent to Cuba for the Cuban doctors and technicians working in Venezuela (worth approximately USD 1.8 billion/year at the average price for the Venezuelan basket of oil in 2006). PDVSA also contributed USD 275 million in 2006 to the other Barrio Adentro programs and lists a USD 50 million expenditure to

capitalize the opening of the state-owned bank Banco Industrial in Havana.

¶7. (SBU) PDVSA also spent close to USD 189 million supporting international agreements between Venezuela and Argentina, and another USD 150 million for Venezuela's commitments with Uruguay. According to the table, Bolivia only received USD 3 million from PDVSA from their bilateral deals signed in 2006.

INVESTING IN THE FUTURE

¶8. (SBU) PDVSA's plan to increase oil production to 5.8mbd by 2012 also gets attention in the report (reftel A). The "Plan Siembra Petrolera" includes 47 major projects, 186 projects and 655 sub-projects, of which 30 major projects, 159 projects and 236 sub-projects are currently being executed. PDVSA claims to have spent USD 5.940 billion on these projects in 2006 (though their abbreviated balance sheet indicates that it spent USD 5.832 billion total on all investments in 2006). The list of 425 various projects includes completion dates ranging from 2007 to 2037 (Post assumes that the projects projected to be completed in 1905 were typos).

¶9. (SBU) According to PDVSA, 500 Venezuelan youth are being trained by Iran to work in the petroleum industry, and Portugal, Italy, and Gazprom are providing technical help and training. PDVSA has employees studying at the French Institute of Petroleum (34), the Superior Institute of Energy in France (27), the University of Houston (48), Robert Gordon University in Scotland (50), the University of Burgos in Spain (172) and is developing other programs with Iran, China and Vietnam.

PLANS FOR 2007

¶10. (SBU) The 2007 PDVSA budget predicts national petroleum and derivative production to be 3.251mbd, of which 2.609mbd will be exported. The budget forecasts that PDVSA will raise its production to 3.808mbd by the end of 2007. None of these numbers are probable. According to this budget, PDVSA will spend approximately USD 15.8 billion on operations, USD 13.7 billion on investments, USD 2.8 billion on social expenditures, and remit USD 946 million to the government in dividends. The budget estimates are based on USD 29/barrel of oil (the current price for the Venezuelan oil basket is USD 52.79/barrel) and an inflation rate of 12 percent (inflation is currently running in excess of 18 percent) and thus are equally unrealistic.

COMMENT

¶11. (SBU) The March 4 announcement and subsequent publication represent the first time that the MPPEP and PDVSA have presented their end of year results together as a consolidated report. While the separation between these two entities ceased to exist years ago, this nonetheless marks an increased demonstration of PDVSA's integration into the Venezuelan state. The report notes that, "the New PDVSA finds itself perfectly aligned with the Venezuelan State," and a majority of the 73 pages in the document refer to social and governmental activities rather than those related to the production and sale of petroleum. As has been the case in recent years, the numbers offered by Minister Ramirez and this document are hard to swallow and do not match OPEC, DOE, or local analysts' estimates. Even if the budgetary numbers are to be believed, they show a precipitous decline in the profitability of PDVSA and call into question its

ability to continue to spend at the rate it did in 2006 and at the same time continue its (apparently ancillary mission) to extract, refine, and sell Venezuela's oil.

BROWNFIELD